

FINANCIAL STATEMENTS

HANDICAP INTERNATIONAL

**FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2010**

HANDICAP INTERNATIONAL

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Handicap International
Takoma Park, Maryland

We have audited the accompanying statement of financial position of Handicap International (HI-US) as of December 31, 2011, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of HI-US's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from HI-US's 2010 financial statements, which were audited by other auditors and, in their report dated May 12, 2011, they expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HI-US's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HI-US as of December 31, 2011, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

April 30, 2012

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

HANDICAP INTERNATIONAL
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

ASSETS	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 620,635	\$ 244,105
Accounts receivable	3,708	-
Grants receivable	253,313	323,589
Due from HI-Federation (Note 6)	212,569	9,368
Prepaid expenses	<u>22,283</u>	<u>73,449</u>
Total current assets	<u>1,112,508</u>	<u>650,511</u>
FIXED ASSETS		
Equipment	16,791	16,791
Less: Accumulated depreciation and amortization	<u>(16,791)</u>	<u>(14,623)</u>
Net fixed assets	<u>-</u>	<u>2,168</u>
TOTAL ASSETS	<u>\$ 1,112,508</u>	<u>\$ 652,679</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 509,996	\$ 163,788
Deferred revenue	1,992	14,020
Due to HI-Federation Affiliated Organizations (Note 6)	<u>278</u>	<u>147,502</u>
Total current liabilities	<u>512,266</u>	<u>325,310</u>
NET ASSETS		
Unrestricted	327,369	327,369
Temporarily restricted (Note 2)	<u>272,873</u>	<u>-</u>
Total net assets	<u>600,242</u>	<u>327,369</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,112,508</u>	<u>\$ 652,679</u>

See accompanying notes to financial statements.

HANDICAP INTERNATIONAL

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Contributions	\$ 1,512,096	\$ -	\$ 1,512,096	\$ 326,230
Foundation grants	3,090,586	300,000	3,390,586	2,459,855
Government grants	330,988	-	330,988	787,988
Interest/dividend income	670	-	670	2,800
In-kind	-	-	-	50,750
Direct mail (Note 7)	483,331	-	483,331	312,324
Net assets released from donor restrictions (Note 3)	<u>27,127</u>	<u>(27,127)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>5,444,798</u>	<u>272,873</u>	<u>5,717,671</u>	<u>3,939,947</u>
EXPENSES				
Program Services	<u>2,936,040</u>	<u>-</u>	<u>2,936,040</u>	<u>2,436,520</u>
Supporting Services:				
Management and General	637,815	-	637,815	456,700
Fundraising	<u>1,870,943</u>	<u>-</u>	<u>1,870,943</u>	<u>719,358</u>
Total supporting services	<u>2,508,758</u>	<u>-</u>	<u>2,508,758</u>	<u>1,176,058</u>
Total expenses	<u>5,444,798</u>	<u>-</u>	<u>5,444,798</u>	<u>3,612,578</u>
Change in net assets	-	272,873	272,873	327,369
Net assets at beginning of year, as restated (Note 8)	<u>327,369</u>	<u>-</u>	<u>327,369</u>	<u>-</u>
NET ASSETS AT END OF YEAR	<u>\$ 327,369</u>	<u>\$ 272,873</u>	<u>\$ 600,242</u>	<u>\$ 327,369</u>

See accompanying notes to financial statements.

HANDICAP INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

	2011			2010	
	Program Services	Management and General	Fundraising	Total Expenses	Total Expenses
Salaries (Note 5)	\$ 299,250	\$ 202,022	\$ 31,806	\$ 533,078	\$ 440,959
Benefits	47,178	43,047	2,031	92,256	102,876
Payroll taxes	25,921	19,614	1,088	46,623	35,404
Legal	-	12,724	-	12,724	6,147
Consultants	6,324	40,021	350	46,695	30,881
Direct mail (Note 7)	220,543	-	1,802,791	2,023,334	771,294
Occupancy (Note 4)	-	78,949	-	78,949	89,401
Accounting and auditing services	-	74,598	-	74,598	98,113
Insurance	-	7,382	-	7,382	4,725
Communications	13,416	24,369	111	37,896	18,939
Travel	15,936	49,764	6,211	71,911	86,494
Postage and delivery	6	1,855	18	1,879	225
Supplies	131	23,216	4,584	27,931	20,622
Subscriptions and publications	5,789	4,674	15,165	25,628	7,315
Events and meeting	446	14,386	3,778	18,610	3,569
Bank fees	3	2,735	2,430	5,168	3,478
Grants	2,301,097	-	-	2,301,097	1,884,477
Other operating expenses	-	36,871	-	36,871	2,062
Depreciation and amortization	-	1,588	580	2,168	5,597
TOTAL	\$ 2,936,040	\$ 637,815	\$ 1,870,943	\$ 5,444,798	\$ 3,612,578

See accompanying notes to financial statements.

HANDICAP INTERNATIONAL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 272,873	\$ 327,369
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,168	5,597
(Increase) decrease in:		
Accounts receivable	(3,708)	1,927
Grants receivable	70,276	36,532
Due from HI-Federation	(203,201)	34,933
Prepaid expenses	51,166	(66,666)
Increase (decrease) in:		
Accounts payable and accrued liabilities	346,208	62,087
Deferred revenue	(12,028)	(193,764)
Due to HI-Federation Affiliated Organizations	<u>(147,224)</u>	<u>(39,761)</u>
Net cash provided by operating activities	<u>376,530</u>	<u>168,254</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture and equipment	<u>-</u>	<u>(3,190)</u>
Net cash used by investing activities	<u>-</u>	<u>(3,190)</u>
Net increase in cash and cash equivalents	376,530	165,064
Cash and cash equivalents at beginning of year	<u>244,105</u>	<u>79,041</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 620,635</u>	<u>\$ 244,105</u>

See accompanying notes to financial statements.

HANDICAP INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Handicap International (HI-US) was incorporated in 2006 in the District of Columbia and is located in Takoma Park, Maryland. HI-US works to bring about lasting change in the living conditions of people in disabling situations in post-conflict or low-income countries around the world. They work with local partners to prevent and address the consequences of disabling accidents and diseases; clear landmines/UXO and prevent mine-related accidents through education; and the use of indiscriminate weapons that wound and kill the innocent long after the war is over; respond quickly and effectively to natural and civil disasters to limit serious and permanent injuries and assist survivors with social and economic reintegration; and advocate for the universal recognition of the rights of the disabled through national planning and advocacy.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, Not-for-Profit Entities.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with HI-US's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

Cash and cash equivalents -

HI-US considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) - insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). HI-US maintains a portion of its cash balances at financial institutions in noninterest-bearing accounts; thereby, all of these cash balances are protected by the FDIC under this Act.

At times during the year, HI-US maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Receivables -

Receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of \$5,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

HANDICAP INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Income taxes -

HI-US is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. HI-US is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2011, HI-US has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of HI-US and include both internally designated and undesignated resources. December 31, 2011, there were no unrestricted net assets.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of HI-US and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

HI-US receives funding under grants and contracts from the U.S. Government for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants and support receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

HANDICAP INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2011:

Making it Work - Phase III	\$ <u>272,873</u>
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3. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes specified by the donors:

Making it Work - Phase III	\$ <u>27,127</u>
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4. LEASE COMMITMENT

Effective November 1, 2009, HI-US entered into a one-year lease agreement with Survey Action Center for office space in Takoma Park, Maryland. This agreement was amended to permit the possession of additional space. The amended lease expired on May 31, 2010. HI-US signed a new five-year lease with the Takoma Business Center on June 1, 2010 that expires on May 31, 2015. Rent expense for the year ended December 31, 2011 was \$78,392. Future minimum payments are as follows at December 31, 2011:

<u>Year Ended December 31,</u>	
2012	\$ 84,067
2013	86,589
2014	89,187
2015	<u>37,618</u>
	\$ <u>297,461</u>

HANDICAP INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

5. PENSION EXPENSE

Effective April 15, 2007, HI-US established The Handicap International, Inc. Tax Deferred Annuity Plan (the Plan). All full-time HI-US employees are eligible to participate in the Plan. Plan contributions are made by participants through pre-tax payroll deductions. Plan contributions in the amount of \$600 per quarter will be made by the organization following satisfactory completion of the employee's initial three month probation period. In addition, HI-US matches a contribution of up to three percent of the participant's regular salary. Total pension expense for the year ended December 31, 2011 was \$18,785.

6. RELATED PARTY TRANSACTIONS

HI-US is a part of the Handicap International Federation (HI-Federation), comprised of eight national associations, which is headquartered in Lyon, France. HI-US solicits private and public funds, as well as provides program management through technical expertise, training, monitoring and evaluation, and grants administration. The HI-Federation reimburses HI-US for operational expenses. For the year ended December 31, 2011, operational support to HI-US totaled \$3,079,674. Additionally, HI-US expended \$2,301,097 in grant funds on behalf of the HI-Federation. HI-US and the HI-Federation also share three Board members.

7. ALLOCATION OF JOINT COSTS

During the year ended December 31, 2011, HI-US incurred joint costs of \$1,097,640 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, \$877,097 was allocated to fundraising expense and \$220,543 was allocated to program services.

8. PRIOR PERIOD ADJUSTMENT

HI-US has determined that its net asset balance that was originally reported as temporarily restricted should have been recorded as unrestricted. This reclassification resulted in \$327,369 being reclassified from temporarily net assets to unrestricted restricted net assets. The reclassification had no effect on total net assets.

9. SUBSEQUENT EVENTS

In preparing these financial statements, HI-US has evaluated events and transactions for potential recognition or disclosure through April 30, 2012, the date the financial statements were issued.